The Cartoon Introduction to Economics
Volume One: Microeconomics

By Grady Klein and Yoram Bauman, Ph.D.
The World's First and Only Stand-Up Economist

"Learning economics should be fun, Klein and Bauman make sure that it is."
—N. Gregory Mankiw, Professor of Economics, Harvard University, and author of Principles of Economics

Google's chief economist, Hal Varian, once wrote, "You don't need a brand-new economics. You just need to see the really cool stuff, the material they didn't get to when you studied economics." The Cartoon Introduction to Economics is all about integrating the really cool stuff—such as auction theory, adverse selection, and the prisoners' dilemma—into the funniest and most digestible overview of microeconomics you'll ever read.

"Mirth and economics are not often found together, but this book has a lot of both. It also does a great job of explaining important economic concepts simply, accurately, and entertainingly—quite a feat."
—Eric Maskin, Nobel Laureate in Economics

"Bauman and Klein present solid basic economics in a brilliant cartoon wrapper. The authors successfully shine a happy light on the dismal science."
—Hugo Sonnenschein, Distinguished Service Professor and President Emeritus, University of Chicago

"This is a seriously funny book! Klein and Bauman offer an enlightening and entertaining look at why our day-to-day choices matter and how they all combine. Students will find this a great addition to their textbooks, and critics of the discipline will learn what economics is really about."
—Diane Coyle, author of The Soulful Science

"Had Art Spiegelman and John Maynard Keynes collaborated on a comic book on economics, they could only have dreamed of coming up with something this good."
—Jonathan A. Shayne, a.k.a. Merle Hazard, country singer and founder of Shayne & Co., LLC

A freelance cartoonist, illustrator, and animator, Grady Klein is the creator of the Lost Colony series of graphic novels.

An environmental economist at the University of Washington (and a part-time teacher at Seattle's Lakeside High School), Yoram Bauman also performs around the world as the World's First and Only Stand-Up Economist.
Economists see the world differently. There are powerful market forces all around us! Where are apples $1.52?
The economic worldview is strongly influenced by one simple idea: **competitive markets are great!**

Lots of buyers... ...and lots of sellers... ...all small relative to the market as a whole! **Hooray!**

The benefits of competitive markets can be seen from the Coase theorem.

**If there’s nothing to stop people from trading...**

...then nothing will stop people from trading!

So buyers with high marginal benefits...

...will trade with sellers with low marginal costs...

...and the result will be Pareto efficient!
More formally, economists often respond to the big question by talking about a result called the Invisible Hand Theorem.

Under what circumstances does individual optimization lead to outcomes that are good for the group as a whole?

In a perfect world, competitive markets will lead to a Pareto efficient outcome!

Of course, the world we live in is not perfect...

...but economists still think about competitive markets the same way that regular people think about puppies.

It's so adorable!

But how do we take care of it?

Here are a few good rules:

Rule #1: Understand the market's limitations

Rule #2: Protect competition

Rule #3: Give the market second chances
RULE #1: UNDERSTAND THE MARKET’S LIMITATIONS.

I don’t have any! I’m starving!

Nyah nyah! Thhhppt!

I’m stuffed!

RULE #1: UNDERSTAND THE MARKET’S LIMITATIONS.

JUST LIKE YOU CAN HAVE A PARETO EFFICIENT OUTCOME WHERE ONE KID GETS ALL THE CAKE...

...YOU CAN HAVE COMPETITIVE MARKETS THAT LEAD TO OUTCOMES THAT ARE PARETO EFFICIENT BUT ARE NOT WHAT MOST PEOPLE WOULD CONSIDER TO BE GOOD.

I’m starving! I’m stuffed!

BUT HERE TOO ECONOMISTS SEE THE WORLD DIFFERENTLY.
When addressing inequality, economists tend to favor policies that minimize intervention in well-functioning competitive markets...

Something tells me you should be really careful about where you drop that.

...and maximize individual choice.

Instead of directly giving poor people goods and services we should just give them money.

That leaves as many choices as possible up to each individual...

...and who’s better at optimizing than the individual?

Giving starving people money instead of food may sound odd, but history shows that many famines weren’t caused by lack of food but by lack of money.

Research by Amartya Sen, who won the 1998 Nobel Prize, showed that some famine-stricken areas actually exported food.

Lack of money is the root of all evil.

Congratulations, you win the Nobel Prize!
Rule #2: Protect competition.

It’s dangerous out there!

Markets need referees...

Okay, no colluding, no price fixing, and no hitting below the belt!

...because companies have an incentive to fix prices or form cartels or otherwise engage in anti-competitive behavior.

Psst...

If we both charge high prices...

...then we’ll both make more money!

We learned that on page 102!
In the 19th century, cartels were known as trusts, which is why policies to protect competition are called antitrust policies.

And in cases where competition is limited or impossible, governments can work to limit the extent of damage to consumers.

No, you can’t charge $900 a month for electricity!

You’re a regulated monopoly!

I know it’s tempting to collude, but if you do, I’m going to put you behind bars!

I object to this merger!

It’s not illegal to be big and strong, but you better not abuse your market power.

Here at the antitrust division... ...we don’t trust anybody.
Sometimes competitive markets create big messes, like pollution. Economists think of pollution as an external cost, meaning a cost imposed on a third party.

Rule #3: Give the market second chances.
These external costs are at the heart of the **Tragedy of the Commons**.

From the perspective of supply and demand, the problem is that external costs create a **gap** between **private** marginal costs and **social** marginal costs.

When you look at the problem this way, it’s easy to see that the solution proposed by economists is to use **market forces** to correct market failure.

If I don’t have to bear the full cost of my actions, of course I’m going to pollute a lot!

Wow, now that’s an idea worthy of a Nobel prize!

The way to get people to pollute less... is to make polluting expensive!
ONE WAY TO MAKE POLLUTING EXPENSIVE IS TO IMPOSE A **CARBON TAX** OR OTHER TYPE OF **POLLUTION TAX**.

ANYONE WHO WANTS TO SELL FOSSIL FUELS HAS TO PAY A CARBON TAX!

A PROPERLY DESIGNED POLLUTION TAX CAN **CLOSE THE GAP** BETWEEN **PRIVATE** MARGINAL COSTS AND **SOCIAL** MARGINAL COSTS.

BY INCREASING **PRIVATE** MARGINAL COSTS...

...THE POLLUTION TAX **INTERNALIZES THE EXTERNAL COSTS**!

IT SOUNDS LIKE **MAGIC**, BUT DON’T FORGET WHAT WE LEARNED ABOUT TAXES:

MARKET FORCES WILL PUSH SOME IF NOT ALL OF THE TAX BURDEN FROM SELLERS ONTO **BUYERS**...

...WHICH MEANS WE’LL ALL HAVE TO PAY HIGHER PRICES FOR THINGS LIKE GASOLINE!

WE CAN GET **CLEAN AIR**...

JUST A HALF A TANK, PLEASE,

...BUT WE CAN’T GET A **FREE LUNCH**!
AN ALTERNATIVE TO A POLLUTION TAX IS A SYSTEM THAT INVOLVES A CAP...

WE’RE GOING TO ISSUE PERMITS FOR A LIMITED AMOUNT OF POLLUTION...

... AND YOU CAN’T POLLUTE WITHOUT A PERMIT!

... AND TRADE.

COMPANIES CAN BUY OR SELL PERMITS,

THIS GIVES THEM MAXIMUM FLEXIBILITY...

... SO THEY CAN MAKE PARETO IMPROVEMENTS BY TRADING!

CAP-AND-TRADE SOUNDS VERY DIFFERENT FROM A POLLUTION TAX, BUT IN FACT THEY’RE PRACTICALLY IDENTICAL.

THEY BOTH WORK BY MAKING POLLUTION EXPENSIVE!

NEITHER ONE IS MAGIC, BUT BOTH OF THEM DO COME WITH A SPECIAL BONUS...
The special bonus of pollution taxes is that they generate revenue...

...and we can use this revenue to lower existing taxes.

The way economists see the world, taxes and pollution are two unfortunate realities that go great together!

In this case, two wrongs really do make a right!

Isn’t the world heavenly?

Cap-and-trade can also generate revenue...

...if you use an auction to sell the permits!

Why tax goods when we can tax bads?

Lower taxes on working!
Lower taxes on saving!
Lower taxes on investing!
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—N. GREGORY MANKIW, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY, AND AUTHOR OF PRINCIPLES OF ECONOMICS

GOOGLE’S CHIEF ECONOMIST, HAL VARIAN, ONCE WROTE, “YOU DON’T NEED A BRAND-NEW ECONOMICS. YOU JUST NEED TO SEE THE REALLY COOL STUFF, THE MATERIAL THEY DIDN’T GET TO WHEN YOU STUDIED ECONOMICS.” THE CARTOON INTRODUCTION TO ECONOMICS IS ALL ABOUT INTEGRATING THE REALLY COOL STUFF—SUCH AS AUCTION THEORY, ADVERSE SELECTION, AND THE PRISONERS’ DILEMMA—INTO THE FUNNIEST AND MOST DIGESTIBLE OVERVIEW OF MICROECONOMICS YOU’LL EVER READ.

“HILLARITY AND ECONOMICS ARE NOT OFTEN FOUND TOGETHER, BUT THIS BOOK HAS A LOT OF BOTH. IT ALSO DOES A GREAT JOB OF EXPLAINING IMPORTANT ECONOMIC CONCEPTS SIMPLY, ACCURATELY, AND ENTERTAININGLY—QUITE A FEAT.” —ERIC MASIN, NOBEL LAUREATE IN ECONOMICS

“BAUMAN AND KLEIN PRESENT SOLID BASIC ECONOMICS IN A BRILLIANT CARTOON WRAPPER, THE AUTHORS SUCCESSFULLY SHINE A HAPPY LIGHT ON THE DISMAL SCIENCE.”
—HUGO SONNENSCHEIN, DISTINGUISHED SERVICE PROFESSOR AND PRESIDENT EMERITUS, UNIVERSITY OF CHICAGO

“THIS IS A SERIOUSLY FUNNY BOOK! KLEIN AND BAUMAN OFFER AN ENLIGHTENING AND ENTERTAINING LOOK AT WHY OUR DAY-TO-DAY CHOICES MATTER AND HOW THEY ALL COMBINE, STUDENTS WILL FIND THIS A GREAT ADDITION TO THEIR TEXTBOOKS, AND CRITICS OF THE DISCIPLINE WILL LEARN WHAT ECONOMICS IS REALLY ABOUT.” —DIANE COYLE, AUTHOR OF THE SOULFUL SCIENCE

“HAD ART SPIEGELMAN AND JOHN MAYNARD KEYNES COLLABORATED ON A COMIC BOOK ON ECONOMICS, THEY COULD ONLY HAVE DREAMED OF COMING UP WITH SOMETHING THIS GOOD.” —JONATHAN A. SHAYNE A.K.A. MERLE HAZARD, COUNTRY SINGER AND FOUNDER OF SHAYNE & CO., LLC

A FREELANCE CARTOONIST, ILLUSTRATOR, AND ANIMATOR, GRADY KLEIN IS THE CREATOR OF THE LOST COLONY SERIES OF GRAPHIC NOVELS.

AN ENVIRONMENTAL ECONOMIST AT THE UNIVERSITY OF WASHINGTON (AND A PART-TIME TEACHER AT SEATTLE’S LAKESIDE HIGH SCHOOL), YORAM BAUMAN ALSO PERFORMS AROUND THE WORLD AS THE WORLD’S FIRST AND ONLY STAND-UP ECONOMIST.

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